

Message Text

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PAGE 01 PANAMA 04413 202237Z

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ACTION H-03

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FM AMEMBASSY PANAMA

TO SECSTATE WASHDC PRIORITY 8298

INFO AMEMBASSY SAN JOSE

C O N F I D E N T I A L PANAMA 4413

EO 11652: GDS

TAGS: OREP, PN

SUBJ: STAFFDEL BLUM

REF: STATE 158229 AND 162419

1. FOLLOWING MESSAGE SUMMARIZES SUBSTANCE OF VISIT TO PANAMA BY MR. JACK A. BLUM, STAFFDEL, SENATE FOREIGN RELATIONS COMMITTEE.

A. MR. BLUM ARRIVED AUGUST 15 AND IMMEDIATELY CONSULTED WITH CONTROL OFFICER CONCERNING WORK SCHEDULE. HE REQUESTED APPOINTMENTS WITH MINISTER OF PLANNING AND ECONOMIC POLICY ARDITO BARLETTA AND MINISTER OF HOUSING DE LA OSSA IN ADDITION TO APPOINTMENTS WITH BANKERS WHICH HAD BEEN SCHEDULED BY EMBASSY. HIS SCHEDULE INCLUDED LEADING AMERICAN AND PRIVATE BANKERS, BOTH PANAMANIAN AND THIRD COUNTRY, IN PANAMA, A LEADING LAWYER AND FORMER AMBASSADOR TO USA, AN OFFICER OF MERRILL LYNCH FOR MARKET OPEATIONS, AND HOUSING MINISTE DE LA OSSA. BARLETTA WAS IN US FOR CIAP REVIEW AND UNAVAILABLE.

B. BLUMS'S QUESTIONS WERE AIMED AT FINDING OUT REASONS FOR PANAMA'S EXPLOSIVE GROWTH AS BANKING CENTER SINCE 1970. HE ASKED ABOUT TAX ADVANTAGES PANAMA OFFERS, THE QUALITY AND SOPHISTICATION OF BANK REGULATIONS, THE WILLINGNESS OF PANAMANIAN
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PAGE 02 PANAMA 04413 202237Z

BANKS TO HANDLE "HOT" MONEY AND PANAMANIAN BANK

SECRECY LAWS. DURING COURSE OF SEVERAL INTERVIEWS, HE ASKED ABOUT ADVANTAGES OF PANAMANIAN CORPORATIONS TO AMERICAN AND EUROPEAN INVESTORS.

C. HIS GENERAL IMPRESSION IS THAT PANAMANIAN GOVERNMENT HAS MADE A SOPHISTICATED ARRANGEMENT WITH THE LARGE BANKING INSTITUTIONS, GIVING THEM A PROTECTED BASE FOR EURODOLLAR OPERATIONS FREE FROM TAXATION AND REGULATION IN EXCHANGE FOR THEIR WILLINGNESS TO LEND HALF AGAIN AS MUCH IN PANAMA AS THEY HOLD IN DEPOSITS. THE LARGE FOREIGN BANKS, WORKING IN TANDEM WITH THE GOVERNMENT AGENCIES, HAVE MANAGED TO EXCLUDE THE "MARGINAL - FAST BUCK" OPERATOR THROUGH THE USE OF REGULATORY POWER OF THE NATIONAL BANKING COMMISSION.

D. BLUM NOTED THAT THE BANKS TOLD HIM THERE WAS TOO MUCH BANKING COMPETITION IN THE PANAMANIAN MARKET AND THAT MANY OF THE LOANS WHICH HAVE BEEN MADE IN THE LAST FEW MONTHS, ESPECIALLY THOSE TO FINANCE REAL ESTATE DEVELOPMENT, ARE OF DUBIOUS QUALITY. BLUM ALSO SAYS THAT IF THERE IS A MONEY SQUEEZE ON THE EURODOLLAR MARKET, PANAMA WILL BE ESPECIALLY HARD HIT BECAUSE THE MONEY TO FINANCE THE PANAMANIAN REAL ESTATE BOOM HAS COME FROM SHORT-TERM EURODOLLAR BORROWINGS FOR THE MOST PART.

3. IN COURSE OF HIS CONVERSATIONS, BLUM LEARNED THAT THE US-PANAMANIAN EXTRADITION TREATY IS OUT OF DATE. THE TREATY DOES NOT COVER SECURITIES VIOLATIONS OR VIOLATIONS OF THE RECENTLY-PASSED LAWS AIMED AT ORGANIZED CRIME CONTROL. LIKEWISE, HE SAYS THAT US SHOULD BE ATTEMPTING TO NEGOTIATE A TREATY MAKING IT POSSIBLE FOR AMERICAN PROSECUTORS TO OBTAIN INFORMATION FROM THE PANAMANIAN GOVERNMENT ABOUT BANK ACCOUNTS AND CORPORATIONS WHERE AMERICAN LAW IS THOUGHT TO HAVE BEEN VIOLATED. HE WILL UNDOUBTEDLY RAISE THIS POINT IN WASHINGTON.

2. MR. & MRS. BLUM DEPART PANAMA PER STATE 158229 AT
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PAGE 03 PANAMA 04413 202237Z

8:00 PM AUGUST 20 FOR SAN JOSE.
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